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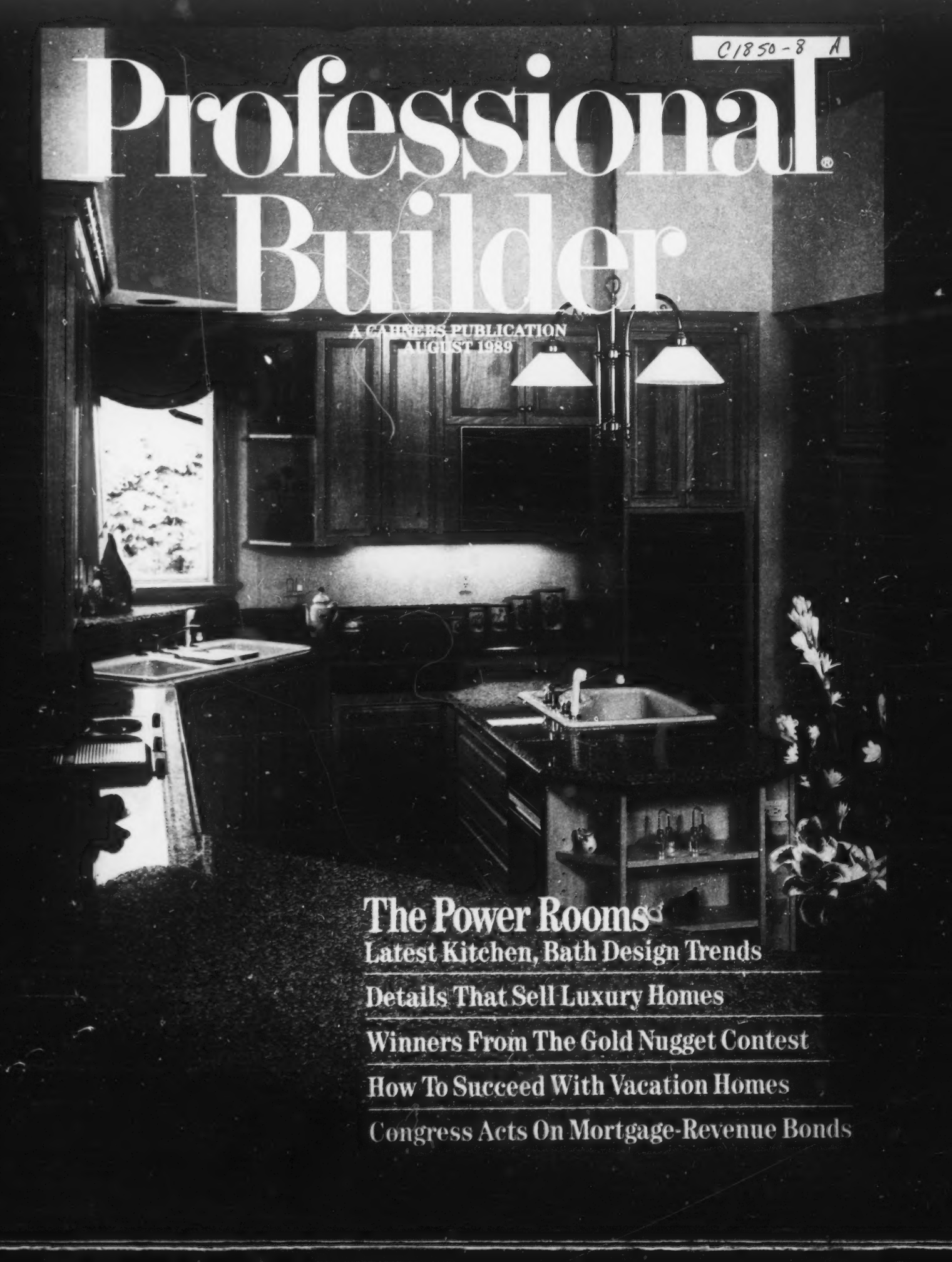


The Power Rooms

Latest Kitchen, Bath Design Trends

Details That Sell Luxury Homes

Winners From The Gold Nugget Contest

How To Succeed With Vacation Homes

Congress Acts On Mortgage-Revenue Bonds

Professional Builder

AUGUST • 1989 VOL. 54

THE MAGAZINE OF HOUSING AND LIGHT CONSTRUCTION/A CAHNERS PUBLICATION

Designing a bath so that sightlines run through the room to the outdoors is one of five design trends seen in new kitchens and baths. Page 66.

Note the luxury details at Glen Oak, above, near Boston and Willoughby, Fla. Homes range from $500,000 to more than $1 million. Page 78.

Davidson Communities sold 116 townhouses on leased land near San Diego. PCBC named Blackhorse La Jolla the Attached Home Of The Year. Page 86.

FEATURES

The Power Rooms: Five Kitchen & Bath Design Ideas 66

Home shoppers love to check out the kitchen and the bath. And builders are responding. According to *Professional Builder*'s 1989 Consumer Survey, builders are devoting more space to the kitchen and the bath.

Here are five design ideas from new model homes. Check out how builders are using finish materials, glass, lighting, interior space planning techniques and long sightlines to impress new-home shoppers.

Details That Sell Luxury Homes 78

A builder of single-family detached houses in Florida and a builder of multifamily homes in New England show how they build and merchandise housing to appeal to the upper-income home buyer. Their homes sell from $500,000 to more than $1 million.

Gold Nugget Award Winners 86

The House Of The Year, The Attached Project Of The Year and the Non-Residential Project Of The Year are among the winners we show from the Pacific Coast Builders Conference Gold Nugget Awards program. PB senior editor Dan McLeister was one of the judges who selected these trend-setting developments from the Western states.

Remodeling Project Of The Month 101

In Chicago, Enterprise Development Co. recycled a temple to residential use. The former Temple Emanuel is now the 17-unit Buckingham Pews apartment development. Six of the units are priced at below-market rents for the physically handicapped.

On the Cover

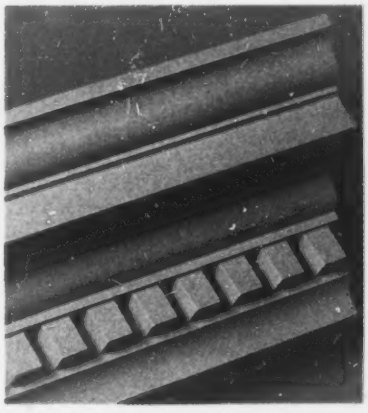
Italian tile floors, granite countertops and custom ashwood cabinets distinguish the kitchen of this 7425-square-foot, $2.3 million custom-built house in Naples, Fla., built by Douglas Marks Inc. Architect was The Evans Group and Helen Slevin Design merchandised the interiors. Photo Everett and Soulé.

Professional Builder

THE MAGAZINE OF HOUSING AND LIGHT CONSTRUCTION/A CAHNERS PUBLICATION

Spending merchandising dollars makes good sense, page 42.

The General Accounting Office released a report that was highly negative of mortgage revenue bonds. But MRBs have supporters in Congress. And they were rallying to save the bonds scheduled to sunset at year's end. Page 20. **Vacation housing starts** number about 100,000 units a year. Here's how two builders merchandise their second-home projects. **Ventilation and energy efficiency** are twin goals of new-home builders. Build a house too tightly and occupants might get sick. But build with less insulation and home shoppers won't buy it. Here's how builders balance the two requirements. Page 47.



Dentil molding, plus other interior products, page 116.

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Top home building markets for 1990

Metropolitan areas in California will continue to dominate the top U.S. residential construction markets through 1990. A just-released report by Cahners Economics shows five California metropolitan areas to be in the top 10. The top three spots on the list are held by California areas.

This dominance is not surprising considering California has accounted for almost one in four of the housing permits issued nationally so far this year. Florida has accounted for an additional 11 percent of housing permits to date, and Orlando is on the top 10 list for the first time since Cahners began projecting top markets.

In recent years, Florida has contained a high proportion of the top-growth markets for home building, but it fell into the second tier when considering absolute levels of construction. Years of strong growth have pushed several Florida markets into the first tier. Orlando, West Palm Beach/Delray Beach, Tampa/Clearwater, Miami/Hialeah and Fort Lauderdale/Pompano Beach are all projected to be in the top 25 U.S. markets in 1990.

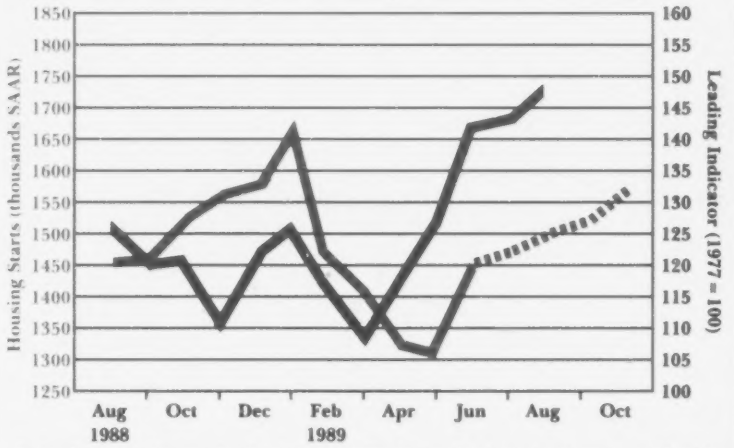
While housing starts are down about 4 percent this year, and permits a bit more, builders that do business in the top markets generally are not seeing lower levels of activity. To the contrary, the value of housing permits is up an average of 12 percent this year from a year ago for the top 10 markets, with seven of the markets showing increases in permit values. Oakland leads the pack with a 39 percent increase.

Most of the top West Coast markets have seen increases in construction activity this year, which reflects strength in the regional economy. An improvement in the foreign trade picture has been the principal source of economic strength nationally over the past 18 months.

Much of this trade improvement has been with Pacific Rim countries, due to the inflation of most Pacific Rim currencies relative to the dollar. □

By Kermit Baker, Cahners Economics, Newton, Mass.

Professional Builder Leading Indicator Of Housing



Broken line denotes forecast. Leading Indicator of Housing predicts short-term changes in residential construction over approximately the next quarter. Latest figure is based on July data and includes the Standard and Poor's home-builder stock index, 90-day T-bills, bank reserves, consumer confidence index and the ratio of homes for-sale to those sold. Prepared exclusively for PB by Cahners Economics.

Top 10 Home Building Markets - 1990

1. Los Angeles/Long Beach	6. Chicago
2. Riverside/San Bernardino	7. Washington D.C.
3. San Diego	8. Atlanta
4. Seattle	9. Oakland
5. Sacramento	10. Orlando

Source: Cahners Economics

Top 10 States For Residential Construction - 1989 (Based on year-to-date permit values)

	% of total permit values		% of total permit values
1. California	23.91%	6. Illinois	3.63%
2. Florida	11.17	7. Texas	3.63
3. Virginia	3.91	8. Georgia	3.38
4. New York	3.70	9. Ohio	3.14
5. Pennylvania	3.64	10. North Carolina	3.00

Source: U.S. Dept. of Commerce

Will Mortgage Revenue Bonds Fade Into The Sunset?

If the Bush administration is serious about affordable housing, it should get behind the mortgage revenue bond programs.

By David Heinly, Senior Editor, Washington Bureau

Lobbyists were cautiously optimistic as Congress adjourned for the Independence Day recess that they had ample support to extend the mortgage revenue bond program. But unless Congress votes an extension this year, the program will end Dec. 31.

The Senate Finance Committee was not expected to take up the reconciliation legislation until the House has acted, probably not before mid-August.

The bond program allows state and local governments to issue tax-exempt bonds to finance home mortgages at below-market rates.

The MRB program, in place since 1970, has evolved as the core of a number of state and local low-income housing programs. Coupled with FHA, VA and, in some cases, conventional mortgage lending, many state housing finance agencies have developed programs for low-income and first-time buyers providing mortgages typically at rates of 2 percent below market and as much as 4 percent below market.

Supporters must defuse a General Accounting Office report that found that for every $1 billion in mortgage revenue bonds issued by state and local governments, the Treasury "loses" about $150 million. In other words, that's how much revenue that is not collected because of the MRBs' tax-exempt status.

Factoring in the effect of recent changes in program rules, which include a volume cap on the amount of tax-exempt securities each state may issue, the Treasury has estimated that the program will "cost" the government in lost revenues about $400 million if it is extended to 1992 and if every state uses its full volume allowance; a "worst case" scenario from the Treasury's point of view.

Advocates of the program argue that measuring it only in terms of the "cost" of "lost revenues" is grossly misleading.

Mark Tipton, vice president and treasurer of the National Association of Home Builders, told the Senate taxation subcommittee earlier this year that "the cost of the MRB program is greatly misrepresented . . . The home building industry will generate more than enough in new revenue to pay for the program."

The National Council of State Housing Agencies, or NCSHA, points out that every $1 billion in tax-exempt MRBs issued by state and local governments provides financing for about 9250 newly constructed single-family homes which, in turn, generates 2,000 jobs and nearly $100 million in tax revenues, including about $35 million to the federal government.

Roughly an equal number of existing home sales are also financed by that same $1 billion of issues, says NCSHA, implying additional revenues generated by a move-up housing market.

Since the inception of the MRB program in 1970 through 1987, NCSHA reports that some $49.4 billion in bonds were issued by the 50 states, providing more than 954,000 below-market mortgage loans.

The "loss" estimates by GAO and Treasury are flawed in other respects, as well, advocates argue. Enactment of the alternative minimum tax in 1986 has effectively raised the yield investors require from the bonds relative to other investments, thus making them less attractive, says NAHB's Tipton.

By implication, it is also "misleading" to assume states will use the full volume per capita cap imposed on tax-exempt "public purpose" bond issues.

Likewise, NCSHA points out that the Treasury's estimated loss "assumes that future investors will necessarily displace the most highly taxed item in the purchasers portfolio with the tax-exempt bond" and is "questionable" since other tax-saving investments are available.

The estimates also fail to recognize that some investors will purchase bonds out of savings, rather than converting taxable assets. In such cases, the council points out, "there can be no revenue loss and in fact revenues will increase as a result of economic activity that would not otherwise have occurred."

The whole idea behind the MRB program and its more recent adjunct, the Mortgage Credit Certifi-

Typical MRB Profile

Average purchase price:	**$60,199**
Average mortgage amount:	**$55,029**
Average term:	**29 years**
Average downpayment:	**$6,364**
Average borrower income:	**$27,251**

Source: National Council of State Housing Agencies

cate program, is to enable state and local housing finance agencies to provide below market rate financing for first-time home buyers.

The MCC program allows states to exchange MRB authority for certificates which entitle eligible first-time buyers to a non-refundable federal income tax credit, typically about 20 percent.

While some opponents, including the GAO, have favored use of MCCs over MRB-financed loans, local housing agencies say MCCs are, at best, a "soft" alternative. They offer little help to lower income home buyers who have a very limited tax liability and, says NCSHA, they lack an effective targeting mechanism.

While the MRB program was subject to criticism in its earlier phases, due largely to loose and poorly written rules, Congress has tightened targeting criteria in recent years to assure that the benefits are going to those most in need; namely first-time buyers.

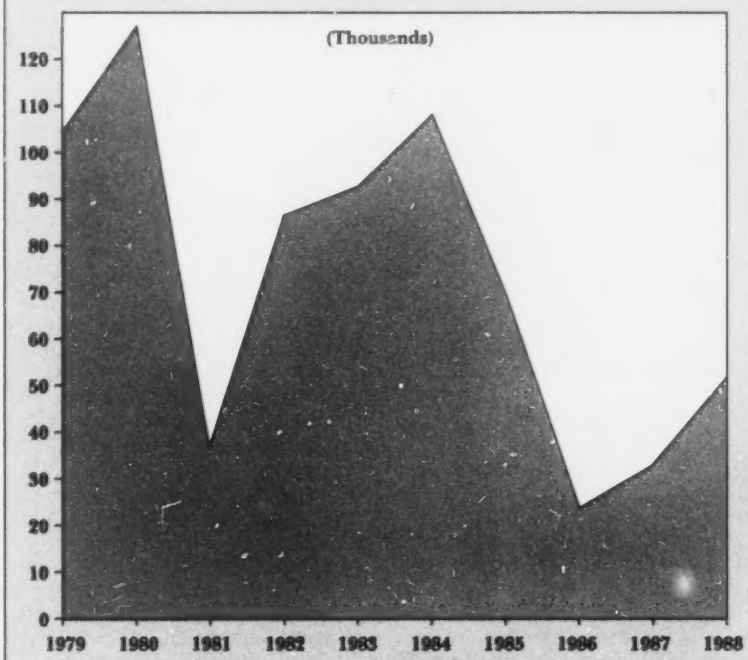
Tinkering with the nation's tax laws in recent years, for MRBs and everything else, has produced a kind of roller coaster record for MRB-financed housing. The program peaked in 1980, financing the production of 123,522 new single-family units as well as the purchase of another 185,282 existing units, according to NAHB.

By now all the arguments for and against MRBs are a familiar story on Capitol Hill, so familiar in fact that, as lawmakers prepared to take up the issue in late July, no further hearings were deemed necessary.

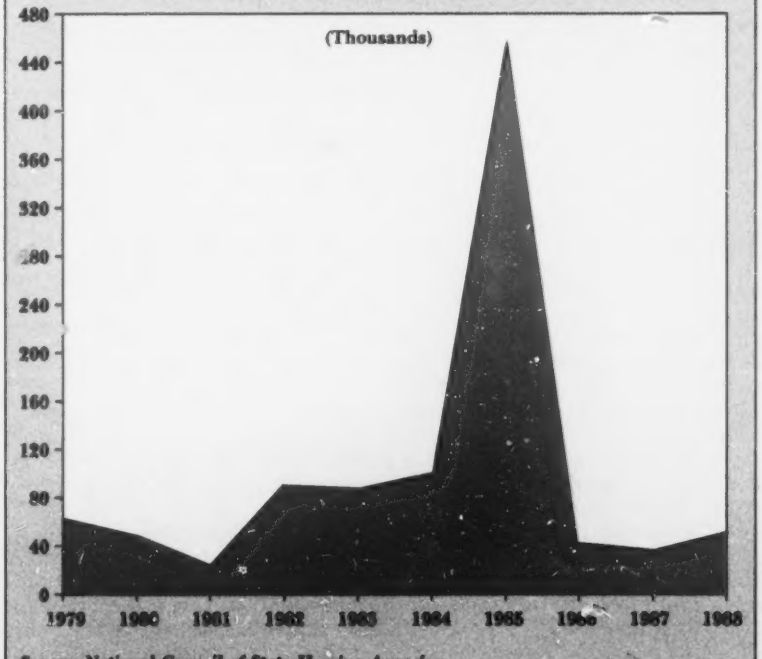
"As many of my colleagues know," said Sen. Riegle in urging support for his bill, "MRBs (help) to ease the problem of housing affordability for many young families seeking to purchase their first home."

While a clear majority of both the House and Senate seem to agree with NCSHA officials who say "there is no real alternative or replacement for the MRB program," whether lawmakers can find a way to extend the program without fracturing their self-imposed budget constraints remains to be seen. □

New Single-Family Homes Financed By Mortgage-Revenue Bonds



New Multifamily Rental Units Financed By Industrial Development Bonds



Source: National Council of State Housing Agencies